

**A MISSED OPPORTUNITY:  
THE WORLD BANK'S  
WORLD DEVELOPMENT REPORT 1995:  
Workers in an Integrating World  
1995**

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**Executive Summary**

The World Bank's *World Development Report 1995: Workers in an Integrating World* (WDR) afforded an opportunity for the World Bank to provide leadership on a central issue that faces both its borrowing and non-borrowing member countries: how the increasing competition of countries for the same pool of investment capital, particularly for the purpose of producing manufactured goods, can be reconciled with the interests of workers in industrialized countries and countries at lesser stages of development.

Instead of providing leadership, the report is a major step backward. It (a) rejects linking internationally recognized, or core, worker rights -- the right of free association, to bargain collectively and to strike -- to international trade and investment agreements, a major initiative of the Clinton Administration; (b) blames urban workers in developing countries, who are fortunate enough to organize themselves into unions for the purpose of improving their wages and workplace conditions, for holding back less-favored workers in rural and urban areas; (c) is so fearful of the "monopolistic" power of unions that it recommends a labor-relations regime of decentralized bargaining to minimize union negotiating leverage with employers and governments; (d) attributes growing unemployment primarily to inflexible labor markets, onerous regulations, and minimum-wage and health and safety provisions that increase costs for employers.

What is missing from the WDR is any understanding of the imbalance in power between employers and workers in too many of the Bank's borrowing member countries and the consequent pervasive abuse of worker rights in such "model" World Bank borrowers as Mexico and Indonesia. Indeed, the Bank refuses to recognize the nexus between the development model promoted by the Bank, with its dependence upon attracting foreign direct investment (FDI), and labor abuses that are endemic among its principal borrowers.

The U.S. Congress has directed the Secretary of the Treasury to instruct the U.S. Executive Director in each international financial institution governed by the legislation to use the "voice and vote" of the United States in each institution to encourage

borrowing countries to "guarantee internationally recognized worker rights" as defined in the 1988 Omnibus Trade and Competitiveness Act (U.S. Congress, 1994). Unfortunately, that direction is not reflected in the World Bank's *World Development Report 1995*.

*World Employment 1995*, a contemporaneous publication of the International Labor Organization (ILO), is in striking contrast to the WDR and calls into question the Bank's analysis and recommendations.

## **A. LINKING WORKER RIGHTS AND TRADE AND INVESTMENT AGREEMENTS**

The WDR rejects linking core, or basic, internationally recognized worker rights to trade and investment agreements (p. 6). Those rights are generally understood to mean, as a minimum, the rights of workers to (a) free association, (b) bargain collectively and © strike. Sometimes prohibitions on forced labor, limitations on child labor, a minimum wage and a safe workplace are also referred to as basic worker rights.

The report states that the "real danger of using trade sanctions as an instrument for promoting basic rights is that the trade-standards link will become hijacked by protectionist interests, attempting to preserve activities rendered uncompetitive by cheaper imports... Low-cost...unskilled labor is the main comparative advantage of poor countries. Differences in endowments are the very basis of international trade..." (p. 79). Pressure for such linkage, states the report, comes from a "small but vocal minority who fear that they will lose from the introduction of new technologies, the growth of international trade, and movements of capital and people across national boundaries," (pp. 4-5). And, this, according to the report, "has led to a proliferation of protectionist demands, many of them under the guise of demands for fair trade and a level playing field as a precondition for free trade..." (p. 50).

This attitude is in striking contrast to the ILO report. *World Employment 1995* is as positive as is the WDR as to the potential benefits of FDI and a free-trade and investment regime for the world economy and individual nations (p. 9, para. 14). But it states clearly what the WDR never admits: "There is, however, the danger that globalization will have negative effects on labor standards. The increased foot-looseness of MNEs, combined with pressures to attract and retain foreign investment could lead to a debasement of labor standards. This makes it important to give fresh impetus to cooperative international action to protect them" (p. 10, para. 19).

That average real wages in the United States have stagnated for the past twenty years, with younger and non-educated workers experiencing significant reduction in earnings, is now well established. (Mishel and Bernstein, 1994, chapter 3). More recent academic studies disagree as to the relative importance of foreign competition as a cause of this stagnation (see Belman and Lee 1995 for a survey of this literature). Whatever the academic disagreements, American workers perceive that companies are more willing to use foreign competition and the threat of moving production to low-wage foreign jurisdictions to achieve concessions in collective bargaining. Even Wall Street financiers

acknowledge the role of foreign competition on the downward pressure on U.S. wages in highly visible key sectors of the economy: " Foreign competition has affected blue-collar workers in the U.S. more severely because import pressures tend to be concentrated in durable goods industries such as autos and steel, which employ a disproportionate number of blue-collar workers at historically higher (and in many cases uneconomic) wages" (Rattner, 1995).

Ten years ago, the Morgan Guaranty Trust Company's World Financial Markets report observed, "The long run shift of comparative advantage in manufacturing to the NICs helped them penetrate the U.S. domestic market even before the dollar's rise. U.S. manufacturer's are keenly aware of the cost savings attainable through contracting for production in low wage areas abroad." (Morgan Guaranty, 1985, p. 9). And the report drew a direct relationship between this tendency to relocate American production abroad and the stagnation of real wages in the United States: "[A]verage real wage gains have been negligible, maintaining their stagnation of the last ten years or more. Foreign competition has been the key factor" (Morgan Guaranty, 1985, p. 9).

The WDR notes that "[r]ecently most of the expansion of multinational corporations has occurred in developing countries: 5 million of the 8 million jobs created by MNCs between 1985 and 1992 were in the developing world" (p. 62). More recent flows, observes the report, "have tended to be searching for cheaper export platforms" (p. 62). And this tendency has contributed to a major shift in the composition of developing countries' exports: the share of manufactures in developing countries' exports tripled between 1970 and 1990 from 20 percent to 60 percent (WDR, p. 51).

The perception among American workers of the link between the relocation of production abroad and wage stagnation has fueled a deep disenchantment with a free-trade and investment regime among American workers (Rowen, 1994). Competition for investment capital is often cited by officials in developing countries as the reason they are unwilling to modify their labor-relations controls. (Elliott-House, 1993, interview with Prime Minister of Malaysia). But it also feeds the sentiment among workers in industrialized countries that the international economy today is not simply a function of different national endowments: rather, it represents a deliberately rigged set of institutional labor-market institutions and practices in developing countries to gain competitive advantage and these arrangements have been taken advantage of by multinational corporations (MNCs) to gain bargaining leverage with their employees in industrialized countries.

The World Bank has accentuated this competition. It has conditioned its lending upon borrowing countries removing obstacles to the entry of foreign capital, particularly FDI, but it has not, at the same time, attempted to assure core worker rights. It has thus seemed to implicitly condone the abuse of worker rights where the borrowing country has otherwise embraced recommendations of the World Bank for an open trade and investment regime. (Levinson, 1994)

## **(I) The Relevance of the NAFTA**

It is against this background that the linkage by the Clinton Administration of worker rights to the North American Free Trade Agreement (NAFTA) must be understood. The issue was particularly acute for candidate Bill Clinton since American workers and their unions were traditionally an important part of the Democratic Party. President George Bush had signed an accord with the President of Mexico, Carlos Salinas de Gortari, for the creation of the NAFTA. Challenged by Bush to state his position on the Agreement, Clinton, in a speech on October 4, 1992 at North Carolina State University in Raleigh, North Carolina, set out the conditions for his support of the NAFTA: parallel agreements that would commit Mexico to enforce its own laws with respect to basic worker rights and protection of the environment (Clinton, 1992).

Mexico's constitution and labor laws, as well as international commitments, nominally guaranteed these rights, most importantly the rights of free association and collective bargaining and the right to strike. In practice, however, these rights were severely constrained by a labor-relations regime that frustrated the organization of truly independent trade unions and vested real power in a labor confederation, the Confederation of Mexican Workers (CTM), which was closely allied to the governing party, the Institutional Revolutionary Party (PRI).

By not calling for uniform labor standards among the signatory parties to the NAFTA (the U.S., Mexico and Canada), Clinton avoided difficult questions of national sovereignty. He was able to persuade organized labor's leaders to refrain from condemning the NAFTA and to await the outcome of the negotiation of the labor parallel agreement, the North American Agreement on Labor Cooperation (NAALC).

American labor seemed to accept that it was no longer feasible to simply oppose imports or obstruct free-trade and investment agreements and that the best way to protect the interests of American working men and women in the NAFTA context was to support effective labor organization in Mexico. Particularly in the more sophisticated export sector of Mexican industry, effective unions could bargain for a greater share of productivity gains and, over time, narrow the wage and benefits gap with American workers. MNCs would be on notice that they could no longer depend upon an oppressive labor-relations regime to assure a docile workforce.

The fate of the American and Mexican workers were deemed to be complementary rather than antagonistic. The way seemed clear for an historic accommodation that would make American organized labor part of a new broad coalition that could support an international free-trade and investment regime that guaranteed core worker rights. (A similar accommodation appeared feasible with respect to the environment.)

The NAALC as finally negotiated was disappointing. The critical issue was whether violation of the core worker rights, the industrial-relations provisions, by one of the Parties by persistently failing to enforce its own laws could lead to sanctions under the grievance provisions of the NAALC. Originally, the first U.S. drafts did so provide, but objection by the Mexican negotiators and strong resistance by the MNCs with investments in Mexico led the Clinton Administration to withdraw its proposal.

The Agreement in its final version merely provided that alleged industrial-relations violations could be heard by the National Administrative Offices (NAOs) of each country, which were to be established under the NAALC, and that the Party alleging such a violation could request consultation with the offending Party. (Alleged violations by a Party of minimum-wage, health and safety and child-labor provisions of its own laws could ultimately lead to sanctions under the grievance provisions of the NAALC.) However, the chief Mexican negotiator assured Mexican entrepreneurs that the grievance procedures were so complex that it was unlikely that they would ever be invoked (Negrete, 1993).

The capitulation by the Clinton Administration on this central point of the NAALC negotiation led the leadership of organized labor and other grass roots movements in the country to a unified stance in opposition to the NAFTA. The opportunity to forge a broad consensus in American society on how to confront a new international economy in which the barriers to trade and investment were falling throughout the world without prejudicing the interests of American workers and their counterparts in the developing countries was lost.

Nevertheless, the NAFTA debate in American society, not just in the Congress, placed this issue on the national agenda. However disappointing the result in the NAALC negotiation, the Clinton Administration did succeed in establishing the principle that labor and environmental considerations were an integral part of the investment environment, as legitimately subject to negotiation in trade and investment agreements as intellectual property rights of corporations.

President Clinton has said, "While we continue to tear down anti-competitive practices and other barriers to trade, we simply have to ensure that our economic policies also protect the environment and the well-being of workers. And as we bring into the orbit of global trade people who can benefit from the investment and trading opportunities we offer, we must ensure that their policies benefit the interests of their workers" (Clinton, 1994).

## **(ii) The European Social Charter**

The NAFTA debate in the United States paralleled an equally fundamental debate in the European Community over a "Social Charter", mutual commitments of the members on a common set of social standards so as to avoid "social dumping", the deliberate maintenance of degraded social standards for competitive advantage. (Eleven of the twelve member countries agreed to negotiate such a Charter, the exception being Great Britain.) A conservative French Prime Minister introduced the proposition that France and, by implication, the Community should not indiscriminately accept imports from countries that egregiously abuse worker and, more generally, human rights; he also joined with the United States in proposing that respect for core worker rights be included in future GATT negotiations.

In the major industrial countries, with the exception of Japan, a profound debate has opened within society as to how to prevent an international economic regime and competition for investment capital from undermining domestic labor (and environmental) standards. Both in the United States and the Western European countries there is a growing realization that this is more than a narrow question of economic competition, although it is that as well.

More important, it is a central component of social and political stability. If a substantial part of the population increasingly comes to feel that it has been economically displaced by international competition that does not adhere to minimum common standards of internationally accepted worker (and human) rights, then it is likely to become a permanently aggrieved segment of society with incalculable social and political consequences. The NAALC and the European Social Charter were an attempt to reconcile these concerns while recognizing the different levels of development and wages in a diverse international economy.

These measures said to MNCs and governments in developing countries that they could not rely on repressive labor-relations practices to assure for competitive advantage a low-wage industrial production regime, but would have to negotiate with workers through their representatives in truly independent unions for a fair share of productivity gains. And it recognized a further aspect of the new international economy: that low wages were not always a reflection of low productivity, particularly in the more sophisticated export sectors of the economy (Shaiken, 1993).

Instead of understanding these initiatives for what they are -- an attempt by national political leaders to lead their countries to a new broad-based social and political consensus capable of underpinning a more open international trade and investment regime -- the *World Development Report* dismisses them as a mere cover for potential protectionist hijackers, the consequence of a "small but vocal minority" driven by fear of losing out. In so doing, the WDR reveals its own limitations: a report written by people out of touch with the deep social and political currents running in a number of the Bank's major non-borrowing countries. As support weakens in these countries for future financing of the World Bank, as it already has, the Bank should consider whether it is not contributing to this sentiment by its one-sided development strategy that emphasizes removal of barriers to investment capital but denigrates the concerns of workers in the industrialized countries and ignores the degraded workplace and environmental conditions that permeate the experience of workers in too many of its borrowing member countries.

## **B. THE WDR's ANALYSIS OF UNIONS AND INCOME INEQUALITY**

There is an almost schizophrenic character to the WDR's discussion of the role of unions in the formal labor sector of the economy and their relationship to poverty and income conditions among the rural and urban poor. The report forthrightly states that, "[f]ree trade unions who can bargain collectively with employers are a cornerstone of any effective system of industrial relations which tries to strike a balance between the need to

maintain enterprise competitiveness and workers' aspirations for higher standards" (p. 79).

But the report also blames urbanized union workers for the plight of the urban and rural poor: "In some countries, they behave as monopolists, protecting a minority group of well-off unionized workers at the expense of the unemployed and those in rural and informal markets, whose formal sector employment opportunities are correspondingly reduced" (p. 80).

At the same time, according to the WDR, that non-union, less-privileged sector is essential to discipline excesses of the unionized wage sector: ..." [a] competitive non-union labor market could exert discipline on the monopolistic wage practices of unionism. If the state encumbers the non-union sector with regulations on minimum wages and restrictions on hiring and firing, the sector will operate much less effectively as a constraint on unions' wage demands" (pp. 82-3).

In other words, says the report, an informal non-unionized rural and urban labor sector, characterized by low wages and low workplace standards, is necessary to discipline the formal unionized sector, and for that to occur the informal sector should not be "burdened" with minimum-wage or hiring and firing restrictions. But if the informal sector is then denied "higher wages, greater job security, and better working conditions", this, according to the report, is the fault of unions, colluding with government and firms, in the organized sector of the economy.

In this bizarre view, the condition of the rural poor, primarily landless laborers, has little to do with land tenure arrangements, absence of rural credit and technical assistance, or the murderous intent of large landholders in such places as Northeast Brazil or the highlands of Guatemala, where it is common practice to assassinate rural union leaders and progressive priests. Nor, according to the report, does the plight of the urban poor have much to do with a steady stream of migrants from rural areas fleeing oppressive conditions, overwhelming urban services in the great metropolitan centers and willing to work for subsistence wages.

The reality in many of the poor countries is quite different than that depicted by the WDR. Urban unionized workers are often the most forceful advocates for change that favors the poor in rural areas. In Brazil, in the 1994 Presidential election, the candidate of the Labor Party, a party based in large part on urban unionized labor, and the candidate himself a former union leader, was the one who most strongly advocated the need in Brazil for land reform, including land-tenure reform. This advocacy was not based simply upon idealism or considerations of social justice. Rather, it reflected enlightened self interest on the part of urban workers.

In countries like Brazil, there is downward pressure on wages resulting from a continuous stream of emigration from rural areas to the great metropolitan and industrial production centers. An agrarian reform that slows down that migration by reforming land-tenure structures in favor of the landless rural poor is therefore in the interests of the unionized

worker. The urban labor movement in Brazil has become the most formidable advocate, along with some elements of the Catholic Church, for agrarian reform that can benefit the rural poor.

### **C. THE WDR-RECOMMENDED LABOR-RELATIONS REGIME**

Consistent with its pervasive fear of the perils inherent in strong unions, the WDR is sufficiently concerned to recommend a labor-relations regime that poses the least risk of a strong labor movement capable of having a voice in national economic policy and with the muscle to bargain for a fair share of the national economic pie. The report considers decentralized bargaining at the plant level the most desirable outcome: "If collective bargaining takes place at the enterprise or the plant level, the union's ability to effect monopolistic wage increases is tempered by the strong competitive pressures on the firm from the product market" (p. 83).

In support of its decentralized, plant-level bargaining, labor-relations regime, the report cites, among other examples, Chile, Japan and South Korea. But plant-level bargaining is not without controversy in these countries. In Chile, the prevailing legislation was enacted during the military dictatorship of General Augusto Pinochet. Part of the price of Pinochet peacefully giving up power after losing an election was an agreement leaving in place the labor-relations regime, including the prevalence of plant-level bargaining. Indeed, the notable feature of the Chilean system is the priority it gives to individual worker contracts, even where there is a collective bargaining contract. This feature apparently is so attractive to the World Bank that it has attempted to negotiate its inclusion in revised labor legislation with borrowing countries (International Development Association, "Nicaragua: Second Economic Recovery Credit and IDA Reflows Supplemental Credit," 1994).

With respect to Japan, the plant-level decentralized bargaining regime was the result of a larger struggle over the direction of post-war Japanese society and the degree to which genuinely democratic institutions would prevail. This struggle, and particularly the titanic battle involving the Nissan Motor Company, which resulted in Nissan's breaking its independent union, led by Tetsuo Masuda, with the tacit support of key American economic officials, has been detailed by David Halberstam: "Most significant was the death of Masuda's dream -- of an industry-wide union strong enough to stand up not just to one company but to the entire industry and indeed the state. From now on, each company would have its own union, which would be totally loyal to its parent company and dependent upon the marketplace success of the company for its success. Management had won; it could not go back to the pre-MacArthur days when there were no unions at all, but it had defined labor on its own terms, incorporated labor into the company itself, and ended any possibility of labor as an adversarial force within. Years later, when Japan finally challenged Western industries, it was clear that one of the most critical factors in its success was the creation of the second unions and the elimination of radical ones" (Halberstam, pp. 183-4).

The ILO's *World Employment 1995*, however, observes that it is not at all clear that decentralized wage bargaining is a decisive factor in assuring sound macroeconomic performance (pp. 18-19, para. 46).

The WDR is concerned that although, "[s]ome job security regulation may be needed to limit unfair practices...too much job security can discourage employment creation" (p. 89). The Bank's recommended solution is for "[e]mployers and worker representatives to bargain over the remuneration package and be able to trade more severance pay for lower wages or less agreeable conditions. Under this framework, labor laws would announce the principle of income security through severance payments and perhaps define a minimum level without specifying the exact amounts which could differ across firms. Government's role would be to ensure that workers' rights to collective bargaining are protected and help settle disputes. Agreements reached in this way would have a better chance of balancing workers' desire for security with market realities and would be easier to enforce than legislated payments" (p. 90).

But what if a union is not independent of government or company influence and acts more on their behalf than in the interests of the workers it is supposed to represent?

The WDR assumes a near equal bargaining power between workers and companies and governments. More often than not, in too many of the Bank's borrowing member countries, this is not the case. MNCs, now in great demand in these countries, too often shamelessly exploit workers; and governments, increasingly dependent upon them for investment capital, prefer to look the other way rather than enforce the provisions of their own laws and constitutions that guarantee core worker rights.

Nowhere is this more evident than in the maquiladora sector in Mexico. This sector is primarily located in Mexican towns on the border between the U.S. and Mexico. The maquiladoras are largely U.S. owned subsidiaries of major multinational corporations. They ship components to their Mexican subsidiaries, where they are assembled into finished products and returned to the United States under favorable tariff treatment. The workforce is largely composed of female employees.

The experience of Ofelia Medrano is typical of what actually transpires at the plant level. A 23-year-old woman, she was hired by the maquiladora subsidiary of the Honeywell Corporation on July 7, 1993 and fired on November 25 for trying to organize an independent union. She testified before the U.S. National Administrative Office (USNAO), established under the NAALC. Each of the parties to the NAFTA (the U.S., Mexico and Canada) has established such an office to hear complaints concerning the alleged failure of another Party to the NAFTA to enforce its own labor laws.

Medrano testified as to the conditions that led her to spearhead an attempt to form an independent union at the Honeywell plant: "Safety and hygiene conditions were not good, since we did not have the tools and security equipment that was necessary. One example is that we did not have sufficient extraction air fans, since we were working with paints, thinners, epoxy and dangerous chemicals. Sometimes this caused us to have headaches

and nausea. They did not provide us with gloves, masks or belts. Sometimes we had to lift up to 10 or 15 kilograms, and several women hurt their waists" (Medrano, 1994, pp. 34-5).

Medrano initiated discussions with fellow workers about forming a union. The following week she was called into the office of management and asked who was organizing a union within the company: "I answered that I did not know. He asked me what my opinion was regarding the union and what benefits it would provide us. I answered that a union would provide us with better wages, better working conditions and better dealings with supervisors. And he responded by saying that in no way at all would he allow a union within the company, that first he would close the company before allowing one to enter" (Medrano, 1994, p. 36).

Along with Medrano, twenty other female employees of Honeywell who had indicated an interest in forming such a union were fired. Along the border, the maquiladoras are well organized. Workers fired from one plant for union organizing are considered troublemakers and can rarely find work in other plants.

Whatever the provisions of the Mexican Constitution, laws and international commitments, all of which nominally afford Mexican workers reasonable job security guarantees, MNCs and Mexican companies can arbitrarily discharge workers on the most flimsy of pretexts. The dispute resolution bodies -- Arbitration and Conciliation Commissions (CABs), whose members are appointed by the government and the dominant trade union federation, the CTM, are stacked against the workers.

Often, the CABs use the Mexican legal requirement that unions be registered with them to frustrate the registration of unions truly independent of government and company control. This was the case with Mexican workers of Magneticos de Mexico, the maquiladora owned by the Sony Corporation. The USNAO determined in a hearing held in San Antonio, Texas, in connection with a complaint initiated on behalf of the workers, that their attempt to register an independent union had been denied by the CAB on spurious grounds (USNAO Report, Submission # 94003).

It is virtually certain that had Mexico used a registration requirement to frustrate the entry of foreign capital, the World Bank would have conditioned future lending to Mexico upon the removal of such a barrier. Indeed, as previously noted, World Bank "conditionality" has been directed in Mexico (as elsewhere in Latin America) towards one objective: facilitating the entry of investment capital and has ignored the abusive labor practices exemplified in the Medrano and Magneticos cases (Levinson, 1994). It has never, for example, as far as is publicly known, ever raised the issue of obstacles to the formation, including the registration requirement, of independent trade unions in its on-going dialogue with government authorities over development policies and priorities.

The Mexican Government, because of its increasing dependence upon foreign capital, is not only incapacitated from enforcing its own job-protection laws to prevent abuses by

the companies; it has become a partner of the companies in intimidating workers to abandon their constitutional, legal and international right of free association.

What is missing from the WDR is any recognition of the nexus between the development model promoted by the Bank (and the IMF), with its dependence upon attracting FDI, and the labor abuses that are becoming increasingly endemic among its principal borrowers. Mexico and Indonesia are among the World Bank's largest borrowers, but the Bank has never defined country performance, which governs the Bank's decision as to how much resources a country may expect to receive from the Bank, to include respect for core worker rights.

The Bank has steadfastly refused to admit that the labor-relations regime is as important a part of the investment environment as the financial rules governing investments. The Bank, and, in Latin America, the Inter-American Development Bank (IDB), have tacitly accepted such labor abuses as an integral part of the strategy of attracting FDI (Levinson, 1994).

The WDR seems to be oblivious to the disproportion in power between workers and management in most of its borrowing member countries. In a situation where the plight of workers like Medrano and the Magneticos workers is more the norm than the exception, the report is obsessed by potential union abuses of "monopoly" power. Its recommendations --decentralized wage bargaining and not too much job security protection -- are consequently designed not to assure the protection of core worker rights in its borrowing member countries, but to limit the ability of workers to protect those rights through effective collective bargaining.

#### **D. GROWING INCOME INEQUALITY AND CONCENTRATION OF ECONOMIC POWER**

The WDR is sensitive to the charge that the policy reforms sponsored by the World Bank have contributed to a growing income inequality in Latin America, but it is reluctant to admit that such growing inequalities are a consequence of these reforms (p. 56). Yet, one of the strongest boosters of the Salinas government reforms in Mexico has candidly admitted, "Mr Salinas's economic policies have widened already huge disparities of wealth... Some have grown rich from a privatization program which brought large capital sums to the state but which also converted public monopolies into private ones" (Economist, 1994).

And the World Bank's own Latin America and Caribbean Region, in a June 1993 confidential strategy paper on Mexico, acknowledged the link between growing income inequality and policies of the Salinas government, policies which the World Bank has enthusiastically supported and financed. It noted that the continued viability of the economic program would depend upon "how the government responds to chronic poverty -- and to the possibly more visible and politically charged problem of a policy-induced deterioration in the distribution of income" (World Bank, 1993a, p. 9). What is true of Mexico has also been occurring in Argentina and elsewhere in Latin America.

These candid observations concerning the link between policies supported by the Bank and growing income inequality and concentration of economic power are in striking contrast to the denials of such linkage by the WDR. In this context, the case for strong independent unions that can negotiate on behalf of their membership for a fair share of productivity gains and thus assure a wider distribution of such gains is particularly compelling.

## **E. LABOR MARKET FLEXIBILITY AND THE DEBATE OVER THE CAUSES OF RISING UNEMPLOYMENT**

The WDR analysis and recommendations mirror an on-going debate in both industrialized and developing countries as to the causes of seemingly intractable unemployment. An influential body of opinion considers differences in labor-market regulation to be the central explanation of contrasting employment performance across countries. This debate has most prominently centered around the contrasting performances of the U.S. and West European economies.

Labor-market rigidity in Europe -- strong unions, stringent employment protection, generous welfare provisions -- in contrast to the relatively unregulated labor market in the United States, is blamed for poor employment performance in Europe (Washington Post, Editorial, May 17, 1995).

Concern with alleged labor-market rigidities underlies, as well, the analysis and recommendations of the WDR, which emphasizes the importance of flexible labor markets: "Adaptable labor markets are essential if workers are to benefit quickly from economic recovery, and increased labor market flexibility is an important part of the adaptability agenda. Increasing labor market flexibility -- despite the bad name it has acquired as a euphemism for pushing wages down and workers out -- is essential in all the regions of the world undergoing reforms... Many of the necessary reforms will involve special, large layoff operations, or liberalizing complementary markets, especially the housing market. But the most important reforms involve lifting constraints on labor mobility and wage flexibility, as well as breaking the ties between social services and labor contracts" (p. 109).

Perhaps, however, the "bad name" it has acquired is deserved and is a reflection of the one-sided emphasis of the Bank in its recommended development strategy of creating conditions conducive to attracting capital instead of a more balanced approach that recognizes the importance of core worker rights.

*World Employment 1995*, moreover, suggests that "labour market rigidities have not been an underlying cause of past labour market performance" (p. 20, para. 51). It observes, "Labour market performance has deteriorated since the first oil shock irrespective of differences in labour market regulation, suggesting that a more fundamental common factor (or factors) has been at work. International shifts in trade, employment and technology could be among these causes of deteriorating labour market performance. The manifestations of this deterioration have, however, differed, taking the form of rising

inequality and falling wages in the less regulated United States labour market and high unemployment in the more regulated European setting. In any case, even if the issue of ultimate causation is left aside it remains debatable whether it is regulation of the labour market that has been the main impediment to job creation."

And it further notes that "[a] purely (or mainly) deregulatory route to greater labour market flexibility will not be a panacea. Far from being a simple solution that confers only benefits it is likely to involve a trade-off in terms of greater inequality and poverty. It will also involve the sacrifice of the considerable benefits that flow from appropriately regulated markets" (p. 22, para. 56). Those benefits include the propensity of firms to train and the willingness of workers to invest in upgrading their skills when employment security exists (p. 22, para. 57).

*World Employment 1995* recognizes the advisability of labor-market reform, particularly with respect to the rigidity imposed by regulations on the length and organization of working time, but it also notes the importance of coordinated macroeconomic policy decisions among the major economies: "Most projections of long-term employment scenarios indicate that rates of growth higher than the trend since 1974 are required in order to restore full employment..."(p. 21, para. 53). And it argues that a "basis for policy coordination exists in the present conjuncture. The level of capacity utilization is generally low, making it unlikely that growth will be checked by supply constraints in the short run" (p. 21, para. 54).

This debate over the relative importance of labor-market deregulation as a cause of unemployment is not likely to end soon. However, the World Bank has the means to enforce its view by making its lending to countries conditional upon their adopting the labor-market policies it favors. As the ILO *World Employment 1995* notes, however, the labor-relations regime that the Bank is pressing upon its borrowing member countries may not be appropriate for them. On the contrary, rapid labor-market deregulation, in the circumstances that exist in too many of the Bank's borrowing member countries, where core worker rights are already weakly enforced, are likely to involve a trade-off that increases inequality and poverty.

## **F. DEREGULATION AND DISCRIMINATION**

A major theme of the WDR is that relatively unregulated markets which minimize costs to employers are ultimately the most beneficial to workers, as they offer employers incentives to create jobs. The logic of this approach leads the report's authors to express reticence at introducing workplace standards and affirmative action to promote equal opportunity. "Anti-discrimination standards designed to help women are often difficult to enforce," according to the report, and too costly.

In developing countries, anti-discrimination standards in the workplace have had many "unwelcome effects", according to the WDR, including:

-- depression of female wages

- avoidance of female recruitment
- the practice of fixed-term contracts (to avoid paying maternity benefits)
- a requirement that women produce medical certificates attesting to their sterilization before hiring.

Without offering evidence that anti-discrimination programs designed to correct just these abuses have in fact the opposite effect, the WDR presents these poor, unacceptable practices as an inevitable consequence of efforts to introduce gender-based standards in the workplace. The authors fail to take cognizance of the fact that even by their strict "magic of the market" logic, it would be counterproductive and inefficient for labor markets to discriminate against 50 percent of the potential workforce, and deny women opportunities to participate fully in active life. They also ignore the considerable body of progressive policy and regulation that have evolved over the years on gender issues. Examples abound of successful policies and affirmative action programs which seek to promote the full participation of women in the labor market, and the desegregation of workplaces.

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